



Why Aurora Cannabis (TSX:ACB) Stock Fell 16% Over the Past Week

Description

The cannabis sector has been interesting to watch during the COVID-19 pandemic. In early April, I'd asked whether the [fledgling industry was recession proof](#). Cannabis sales spiked in March as consumers stocked up on reserves, and we have since witnessed periodic spikes in activity.

Overall, cannabis has shown resilience like other sin stocks. **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB), one of the top producers in Canada, managed to [stage a rally](#) in May.

Unfortunately, this momentum has stalled. Shares of Aurora have dropped 16% week over week. Let's explore why this has occurred.

Aurora Cannabis: A bump after earnings and an acquisition

Aurora stock rose on the back of two developments in recent weeks. The company released its third quarter fiscal 2020 results on May 14. Consumer cannabis net revenue increased 24% year over year to \$41.5 million.

Management underwent an operational reset after the departure of CEO Terry Booth earlier this year. Aurora is now on track to achieved profitability by the first quarter of fiscal 2021.

About a week after this solid earnings report, Aurora Cannabis received another boost. It agreed to buy U.S.-based company Reliva, granting Aurora a foothold south of the border. This move also grants Aurora access to the burgeoning cannabinoid market. However, some analysts are not entirely convinced of its efficacy in the long term. The acquisition was completed on May 28.

Investors are still skeptical

Investors in Aurora have seen their shares diluted on several occasions. The \$40 million price tag for Reliva forced Aurora to issue 2.5 million new shares. If its valuation continues to sink in the coming weeks, Aurora could be forced to issues several million more shares to pay the additional \$45 million

contingent fee for Reliva.

On the other hand, investors have reasons to be optimistic. Aurora Cannabis opted for dilution rather than dip into its cash reserves. The company has bled a lot of cash over the past year, and investors had just started to see improvement in the most recent quarter.

As it stands today, Aurora boasts a very good balance sheet as we look ahead to the final quarter of fiscal 2020.

Should you have faith in Aurora today?

Shares of Aurora last had a favourable price-to-book value of 0.5. The stock last had an RSI of 58, putting it closer to technically overbought territory at the time of this writing. While cannabis sales have shown some signs of improvement in the spring, the increase has not been substantial enough to spark a huge turn in fortunes.

Many consumers are still turning to the black market. Ontario aimed to expand its brick-and-mortar retail footprint in 2020, but the COVID-19 pandemic has put a dent in these plans.

Aurora Cannabis deserves praise for improving its cash position. However, the middling state of Canada's domestic market may continue to hold it and other top producers back going forward.

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